



STATE OF CALIFORNIA

GAVIN NEWSOM, *Governor*

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

**FILED**

12/28/20  
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December 28, 2020

**Agenda ID #19097  
Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 20-06-005:

This is the proposed decision of Administrative Law Judge Marcelo L. Poirier. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's February 11, 2021 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:avs

Attachment

Decision **PROPOSED DECISION OF ALJ POIRIER** (Mailed 12/28/2020)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of  
Southern California Gas Company  
(U904G) Regarding Year 26 (2019-2020)  
of Its Gas Cost Incentive Mechanism.

Application 20-06-005

**DECISION APPROVING SOUTHERN CALIFORNIA GAS COMPANY'S  
SHAREHOLDER REWARD FOR YEAR 26 (2019-2020)  
OF THE GAS COST INCENTIVE MECHANISM****Summary**

This decision approves Southern California Gas Company's request for a shareholder reward of \$12,806,448 for Year 26 (2019-2020) of the company's Gas Cost Incentive Mechanism performance. The Commission's Public Advocates Office verified that Southern California Gas Company's recorded gas costs were \$81,972,454 below the benchmark, which results in a reward of \$12,806,448 to Southern California Gas Company's shareholders and a ratepayer benefit of \$69,166,005. This decision closes the proceeding.

**1. Background****1.1. Regulatory Background**

The Gas Cost Incentive Mechanism (GCIM) is a ratemaking incentive mechanism program originally approved in Decision (D.) 94-03-076.<sup>1</sup> The purpose of the GCIM is to provide Southern California Gas Company (SoCalGas)

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<sup>1</sup> See D.97-06-061, D.98-12-057, and D.02-06-023. The latter decisions modified and extended the GCIM on an annual basis until such time as the Commission modifies or terminates it.

with a financial incentive to purchase and transport gas for core ratepayers at a cost that is equal to, or less than, prevailing market prices.

The GCIM operates on a 12-month cycle that ends on March 31 of each calendar year. SoCalGas must file an application by June 15 of each calendar year to obtain its shareholder reward or penalty for the GCIM year ending on the immediately preceding March 31. The application must include a report for the prior GCIM year that: (1) describes SoCalGas' Gas Acquisition Department's operations; (2) reports the variance between actual gas costs and the market benchmark; (3) reports the GCIM shareholder reward or penalty; and (4) describes any deviation from gas storage inventory targets.

The Commission's Public Advocates Office (Cal Advocates) is required to conduct an annual audit of the GCIM and file a monitoring and evaluation report by October 15 of each year as part of the annual GCIM application proceeding.

## **1.2 Procedural Background**

SoCalGas filed Application (A.) 20-06-005 on June 15, 2020. Cal Advocates filed a response to the application on July 20, 2020.

On July 21, 2020, the assigned Administrative Law Judge (ALJ) issued a ruling that set a prehearing conference (PHC). On July 28, 2020, SoCalGas filed proof of compliance with the requirement in Rule 3.2 of the Commission's Rules of Practice and Procedure to provide notice of A.20-06-005 to SoCalGas' customers and the public.

Shell Energy North America (US), L.P. (Shell) filed a motion for party status on August 4, 2020. The assigned ALJ issued a ruling granting party status to Shell on August 5, 2020.

A telephonic PHC was held on August 11, 2020, and SoCalGas, Cal Advocates and Shell participated in the PHC.

The Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on September 3, 2020. Among other things, the Scoping Memo confirmed the Commission's preliminary determination in Resolution ALJ 176-3464 that the category for this proceeding is ratesetting. However, the Scoping Memo determined that hearings would not be needed.

Cal Advocates filed its Monitoring and Evaluation Report on October 15, 2020. No party filed comments on the Cal Advocates Report.

## **2. Issues Before the Commission**

Pursuant to the Scoping Memo, the scope of this proceeding consists of the following issues:

- A. Whether to approve SoCalGas' requested shareholder award of \$12,806,448 for GCIM Year 26.
- B. Whether SoCalGas has calculated its requested shareholder award of \$12,806,448 in accordance with applicable Commission decisions and SoCalGas' GCIM tariff.

The Scoping Memo also determined that there are no safety issues that need to be considered in this proceeding.

## **3. Summary of Application 20-06-005**

In A.20-06-005, SoCalGas requests a shareholder reward of \$12,806,448 for GCIM Year 26 that covers the period of April 1, 2019 through March 31, 2020. The GCIM compares the Actual Total Annual Purchased Gas Cost (Actual Annual Cost) to the Annual Benchmark Budget (Benchmark Budget). The Actual Annual Cost is the sum of: (1) actual gas commodity costs and transportation costs, (2) net gain or loss from certain gas hedging transactions, (3) net revenues

from secondary market services (SMS), and (4) certain other revenues, expenses, and adjustments identified in SoCalGas' GCIM tariff.

The Benchmark Budget consists of monthly benchmark gas commodity costs, monthly benchmark commodity transportation costs, and monthly benchmark transportation reservation charges, as described in SoCalGas' GCIM tariff.

To determine the annual GCIM shareholder reward or penalty, the Actual Annual Cost is compared to the Benchmark Budget. Core ratepayers are assigned all gains and losses within a Tolerance Band. Gains and losses outside the Tolerance Band are shared between core ratepayers and shareholders in accordance with the formula described below.

The upper limit of the Tolerance Band is the Benchmark Budget plus two percent (2%) of the annual Benchmark Gas Commodity Cost (BGCC). The Actual Annual Costs in excess of the upper 2% limit of the Tolerance Band (*i.e.*, a loss) is shared equally between core ratepayers and SoCalGas.

The lower limit of the Tolerance Band is the Benchmark Budget minus one percent (1%) of the BGCC. To the extent the Actual Annual Cost is 1% – 5% below the Benchmark Budget (measured as a percentage of BGCC) the first 1% of the gain (*i.e.*, the Tolerance Band) is allocated entirely to core ratepayers and the remainder is allocated 75% to core ratepayers and 25% to shareholders. To the extent the Actual Annual Cost is greater than 5% below the Benchmark Budget (measured as a percentage of BGCC) the gain in excess of 5% is allocated 90% to core ratepayers and 10% to shareholders. The SoCalGas shareholder award is capped at 1.5% of actual annual gas commodity costs.

The following table shows the GCIM sharing formula in tabular form:

| <b>Table 1</b><br><b>GCIM Sharing Formula</b><br><b>Actual Annual Cost vs. Benchmark Budget</b> |                              |                                   |
|---|------------------------------|-----------------------------------|
| <b>Actual Annual Cost &gt; Benchmark<br/>Difference as a Percentage of BGCC</b>                 | <b>Ratepayers<br/>(Loss)</b> | <b>Shareholders<br/>(Penalty)</b> |
| 0 – 2% (Tolerance Band)   | (100%)                       | 0%                                |
| >2%   | (50%)                        | (50%)                             |
| <b>Benchmark &gt; Actual Annual Cost<br/>Difference as a Percentage of BGCC</b>                 | <b>Ratepayers<br/>Gain</b>   | <b>Shareholders<br/>Reward 1</b>  |
| 0 – 1% (Tolerance Band)   | 100%                         | 0%                                |
| 1% - 5%   | 75%                          | 25%                               |
| 5% & Above  | 90%                          | 10%                               |
| <sup>1</sup> Shareholder reward capped at 1.5% of the actual annual commodity cost.             |                              |                                   |

This current application is SoCalGas' 26th annual application under the GCIM. The Commission issued D.20-02-007 and approved a shareholder reward of \$16,798,695 million for SoCalGas' GCIM Year 25 application.

For Year 26, SoCalGas provides that its actual cost for all gas purchases subject to the GCIM was \$1,111,009,145 while the benchmark cost was \$1,192,981,598. Therefore, SoCalGas acquired gas at \$81,972,453 below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, of the \$81,972,453 savings for purchases below the benchmark, \$69,166,005 is ratepayer savings and \$12,806,448 is shareholder rewards.

Pursuant to D.10-01-023, the calculation of GCIM total actual cost for all gas purchases shown above includes 25% of gains and losses and transaction costs from SoCalGas' winter hedging activities in Year 26. Total net costs from winter hedging activities in Year 26 resulted in a gain of \$4,301,875, and so, 25% of winter hedging gain, \$1,075,469 was included in calculating the GCIM actual costs. Total net costs from non-winter hedging activities resulted in a loss of

\$219,176. In Year 26, SoCalGas' winter and non-winter hedging activities included in the GCIM resulted in a gain of \$856,293, as shown in Table 2 below.

| Table 2<br>SoCalGas Reported GCIM Year 26 Results |  |                   |                |  |
|---|--|-------------------|----------------|--|
| Row   |  | Benchmark<br>(\$) | Actual<br>(\$) | Actual<br>Over/(Under)<br>Benchmark (\$) |
| 1   | Commodity  | 935,735,643       | 898,274,139    |  |
| 2   | SMS Net Revenue  | -                 | (43,690,458)   |  |
| 3   | Off System Park and Loans  | -                 | 35,802         |  |
| 4   | Hedging Gain   | -                 | (856,293)      |  |
| 5   | Transportation   | 257,245,955       | 257,245,955    |  |
| 6   | Total  | 1,192,981,598     | 1,111,009,145  | (81,972,453)                             |
| GCIM Sharing Allocation                           |  |                   |                |  |
| 7   | Tolerance Band (0 - 1%) <sup>1</sup>   |                   |                | 9,357,356                                |
| 8   | Subject to 75% / 25% Sharing<br>(1% – 5%)<br>Core Ratepayer Share: 75%<br>Shareholder Share: 25%       |                   |                | 37,429,426<br>28,072,069<br>9,357,356    |
| 9   | Subject to 90% / 10% Sharing<br>(5% & Above)<br>Core Ratepayer Share: 90%<br>Shareholder Share: 10%    |                   |                | 35,186,671<br>31,667,104<br>3,518,567    |
| 10  | Total Ratepayer Share  |                   |                | 69,096,529                               |
| 11  | Total Shareholder Share  |                   |                | 12,875,924                               |
| 12  | Total Ratepayer Share After<br>1.5% Cap  |                   |                | 69,166,005                               |
| 13  | Total Shareholder's Share<br>After 1.5% Cap  |                   |                | 12,806,448                               |
|   | <sup>1</sup> Tolerance Band calculated as a percentage of benchmark commodity costs in Row 1.          |                   |                |  |
|   | Source: SoCalGas Year 26 GCIM Report, Cal Advocates Monitoring and Evaluation Report for GCIM Year 26. |                   |                |  |

SoCalGas indicated that various factors impacted Year 26 GCIM results. Although the total volume of gas purchased for Year 26 was 10% greater than Year 25, the commodity benchmark for GCIM Year 26 was lower than the

commodity benchmark for Year 25 “primarily due to lower published indices that the benchmark is based on.”<sup>2</sup>

The following factors contributed to the difference between Year 25 results and Year 26 results: (1) The commodity benchmark for GCIM Year 26 was \$314,829,365 lower than the commodity benchmark for Year 25; (2) Actual commodity costs for GCIM Year 26 were \$291,281,570 lower than Year 25; (3) SMS net revenues for Year 26 were \$900,519 more than Year 25; (4) Hedging gains were \$1,206,591 less in Year 26 compared to Year 25. Table 3 shows the differences between Year 25 and Year 26 benchmark costs and actual costs.

| Table 3<br>Comparison of GCIM Year 25 and Year 26 Benchmark Costs and Actual Costs (\$) |              |               |               |
|---|--------------|---------------|---------------|
|   | Year 26      | Year 25       | Difference    |
| Commodity Benchmark   | 935,735,643  | 1,250,565,008 | (314,829,365) |
| Commodity Actual  | 898,274,139  | 1,189,555,710 | (291,281,570) |
| SMS Net Revenue   | (43,690,458) | (42,789,939)  | (900,519)     |
| Off System Park and Loans   | 35,802       | 403,425       | (367,623)     |
| Hedging (Gain)/Loss   | (856,293)    | (2,062,884)   | 1,206,591     |
| Over/Under Benchmark  | (81,972,454) | (105,458,697) | 23,486,243    |
| <u>Source:</u> SoCalGas Year 26 GCIM Report and D.20-02-007 for SoCalGas’ GCIM Year 25. |              |               |               |

### 3.1. Summary of Cal Advocates’ Monitoring and Evaluation Report

In its Monitoring and Evaluation Report filed on October 15, 2020 (Cal Advocates Report), Cal Advocates verified that SoCalGas’ recorded gas

<sup>2</sup> SoCalGas Application, Attachment A at A-7.



costs were \$81,972,453 below the benchmark, which results in a reward of \$12,806,448 to SoCalGas' shareholders and a ratepayer benefit of \$69,166,005. Accordingly, Cal Advocates recommends that the Commission approve a GCIM shareholder reward of \$12,806,448 for Year 26.

No party commented on Cal Advocates' Monitoring and Evaluation Report.

#### **4. Conclusion**

The record of this proceeding establishes that SoCalGas has calculated its requested shareholder reward of \$12,806,448 for GCIM Year 26 in accordance with applicable Commission decisions and SoCalGas' GCIM tariff. Therefore, we hereby approve SoCalGas's requested shareholder reward. SoCalGas shall recover the approved shareholder reward by adjusting its Purchased Gas Account, but only to the extent that SoCalGas has not already recovered this reward in accordance with its GCIM tariff.

#### **5. Comments on Proposed Decision**

The proposed decision of ALJ Poirier in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_ by \_\_\_\_\_.

#### **6. Assignment of Proceeding**

Genevieve Shiroma is the assigned Commissioner and Marcelo L. Poirier is the assigned ALJ in this proceeding.

#### **Findings of Fact**

1. In A.20-06-005, SoCalGas requests a shareholder reward of \$12,806,448 for GCIM Year 26 that covers the period of April 1, 2019 through March 31, 2020.

2. For GCIM Year 26, the Benchmark Budget was \$1,192,981,598, the Actual Annual Cost was \$1,111,009,145 and total GCIM savings were \$81,972,453.

3. Cal Advocates' Monitoring and Evaluation Report verifies that Year 26 recorded gas costs for SoCalGas were below benchmark, resulting in savings for ratepayers.

4. Cal Advocates calculated that the total savings in gas costs results in a ratepayer benefit of \$69,166,005 and a reward of \$12,806,448 to SoCalGas shareholders. Cal Advocates' findings match those of SoCalGas.

### **Conclusions of Law**

1. A.20-06-005 should be granted.
2. SoCalGas is entitled to a shareholder reward of \$12,806,448 for GCIM Year 26. SoCalGas should receive the reward by adjusting its Purchased Gas Account, but only to the extent that SoCalGas has not already recovered this reward in accordance with its GCIM tariff.
3. The following order should be effective immediately.

## **O R D E R**

### **IT IS ORDERED** that:

1. Southern California Gas Company (SoCalGas) is authorized to adjust its Purchased Gas Account to receive a shareholder reward of \$12,806,448 for Year 26 of SoCalGas's Gas Cost Incentive Mechanism (GCIM), but only to the extent that SoCalGas has not already recovered this reward pursuant to its GCIM tariff.

2. Application 20-06-005 is closed.

This order is effective today.

Dated \_\_\_\_\_, 2021, at San Francisco, California.